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Next 1 Page(s) In Document Denied

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JACK ANDERSON

# WASHINGTON MERRY-GO-ROUND

## Japan's high-tech trading puts profits ahead of security

WASHINGTON — The KGB has found Japan a rich source of Western high-technology products that can be turned to military advantage by the Kremlin.

Yet Japanese officials are unwilling to stop the massive leakage of technology — or even admit it's going on. When confronted privately with the evidence, they profess skepticism that their trading benefits the Soviets militarily since, they say, it involves only commercial products.

Intelligence sources laid out the problem of Japan's weak export controls to my associates Michael Binstein in Washington and Dale Van Atta in Tokyo.

The sources said there have been about three dozen documented cases of high-tech diversion by the Soviets through Japan since 1968. The CIA is disturbed that more than half of these diversions were commercial transactions approved by the Japanese government — which, U.S. officials charge, puts short-term profits ahead of the West's long-term security needs.

But that's only the tip of the iceberg. The suspected cases of high-tech theft run into the hundreds. The very uncertainty over the numbers is a source of continuing frustration for U.S. intelligence agencies.

By legal and illegal methods, the Soviets have bought Japanese manufacturing equipment and used it to build up their own microelectronics industry for military purposes. The Soviet objective is to improve both technology and productivity of industries that have historically lagged behind the West's: microelectronics, machine tools, automation

and specialty steel.

Technology acquired from the Japanese has enhanced the Soviets' ground-based weapons systems and solid-state circuitry for missiles and aircraft, according to intelligence sources. The Soviets have obtained a satellite navigation system through Japanese trading firms.

The Russians also used illegal means, such as industrial espionage and outright theft, to evade U.S. and other Western export controls on products reaching Japan. In fact, there's a large KGB force working out of Soviet diplomatic residences in Japan whose sole mission is high-tech diversion.

Japan's national police and public-security investigative agency have the primary responsibility of countering the high-tech theft, and they have impressive files on KGB agents and their operations.

But the police authorities have not been permitted to take action against the KGB's high-tech larceny, thanks to bureaucratic niceties. Japanese law puts such matters outside the jurisdiction of the police and gives it to the ministries of foreign affairs and international trade. The best the lawmen can do is provide "administrative guidance" — but no enforcement — for companies considering trade with the Soviets.

Multiple transshipment (shipments to four, five or more destinations) and creation of dummy corporations are two methods used by the KGB and profit-hungry Japanese businessmen to get around whatever restrictions there are.

Sometimes the illicit trade is a small-scale

enterprise, as when Japanese fishermen win the privilege of fishing off islands claimed by the Soviets by meeting KGB agents at sea and slipping them everything from digital watches to microchips and information on U.S. and Japanese military bases.

Footnote: In an attempt to stop the high-tech drain, Congress is rewriting the Export Administration Act. The debate has pitted Rep. Don Bonker, D-Wash., who believes Japan and other countries are adequately controlling high-tech exports, against Rep. Toby Roth, R-Wisc., who questions Japan's record.

## OPERATIONS CENTE /CURRENT SUPPORT GROUP

## News Bulletin

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Item No. 2

**JACK ANDERSON****Japan Is Sieve  
For High-Tech  
Leaks to Soviets**

In most respects, Japan and West Germany are among our staunchest allies in the global conflict with the Soviet bloc. But they head the dishonor roll of nations that allow greedy businessmen to sell the Soviets high technology that can be converted to military use.

In congressional testimony earlier this year, a high-level Pentagon official said Japan was the worst offender in the high-stakes, high-tech transfer to the communists. Another military source conceded, though, that Japan's dubious distinction may only be due to the fact that U.S. intelligence is better in Japan than in West Germany.

My associates Dale Van Atta and Michael Binstein investigated the situation. Here's what they learned from knowledgeable intelligence sources in Tokyo and Washington:

The KGB considers Japan an "easy collection target"—a veritable sieve for technology secrets. Some of the biggest, most respected industrial combines in Japan have been involved in questionable transfers of technology to the Soviets, according to the intelligence sources.

The transfer of high-tech items to the Soviets and their eastern European satellites may be accomplished through subsidiaries of Japanese corporate giants. The most popular location for subsidiaries is Kuala Lumpur, capital of Malaysia, with nearby Singapore in second place. Mexico is becoming increasingly popular as a transfer point.

The sources emphasized that the CIA doesn't know of any exclusively military technology the Soviets are getting from the Japanese. But the KGB has gone after micro-electronic equipment, machine tools, computers, telecommunications, automation devices and specialty steel—much of which can be incorporated into Soviet weapons systems.

The Soviets get a lot of their high tech from Japan by legal means, but lately the Japanese are becoming more careful. Soviet representatives were barred, for example, from a recent Japanese conference on "composites," new super-strong, light materials made with special alloys and processes.

One almost ludicrous example of the Soviets' hunger for modern technology was their purchase of a Japanese toy robot called "Taro." It has a sensitive heat-identifying device that makes it avoid people. The Soviets adapted the toy for use in surface-to-air missiles.

One problem is that, however willing the Japanese government may be to keep embargoed technology from the Soviets, Japanese law enforcement agencies have little legal authority to crack down on export-control violations or related industrial espionage committed by foreigners. The best they can do is try to bring informal pressure on firms looking for lucrative contracts with the Soviets—and this has proven to be inadequate.

There are several tricks Japanese companies can use to make sales, which are technically legal, to the Soviets. One is to set up dummy corporations to act as intermediaries in their Soviet-bloc trade. The dummy firms are expendable and allow the parent firms to avoid responsibility for financial losses or illegal activities of the surrogate corporations.

Another standard device is to ship the high-tech items through several companies in different countries. This makes it difficult to trace a single embargoed item through less than perfect corporate records, especially when the particular piece of equipment is obligingly installed in low-grade machinery and provided with false documentation to avoid customs scrutiny.

Belatedly, Japanese officials have promised that they will try to plug the leaks of technology in line with U.S. policy.

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*Jack Anderson*

# High-Tech Leaks

The massive leaks of militarily useful technology from West Germany to the Soviet bloc will take years to plug, according to a secret CIA report. The reason is that the West Germans simply don't want to shut down the profitable high-tech traffic.

This is the sobering conclusion of the CIA report, titled "Transfer of Strategic Technology to the Soviet Union from West Germany." My associates Michael Binstein and Dale Van Atta have reviewed the highly sensitive report.

The CIA notes that the West Germans have traditionally paid lip service to the idea of limiting the flow of military technology to the Soviet bloc. But West Germany has opposed putting any teeth into the repeated attempts to restrict the traffic as recommended by COCOM, the coordinating committee set up by the Western allies to control West-East trade.

"The Kohl government, like previous governments, sees expanding trade between West Germany and the Soviet Union as essential to its economy and its balance of foreign trade," the

CIA explains. "West Germany will therefore continue to interpret COCOM regulations narrowly in its own best interests. West Germany is (also) opposed to trade embargoes for political purposes and will resist U.S. attempts to exercise extraterritorial control over West German subsidiaries of U.S. firms."

The report chides West German licensing authorities and intelligence agencies as "ineffective" in trying to control illegal technology sales to the Soviets. They have acted effectively only when "outside sources" (the CIA, presumably) have given them evidence of illegalities.

Here are some specific points the report makes about the West Germans' performance:

- The diversity and efficiency of West Germany's industries and banks, its excellent transportation system and its convenient location next door to Soviet-bloc nations and neutral countries make it an obvious target for Soviet efforts to obtain Western high-tech items.

- "Small, entrepreneurial firms in West Germany . . . continue to be the main instrument of

Soviet-bloc diversionary efforts. . . . An industrial security-awareness program is needed to sensitize law-abiding West German firms."

- Soviet military shoppers take full advantage of West Germany's system of bonded custom transit zones, where customs agents are forbidden to snoop without evidence of probable violations. "Customs agents should be sensitized to the need for inspection of suspicious shipments," the CIA report says, "in particular those received from abroad which are reconsigned to a foreign destination without being delivered to their original West German consignee."

- The fox is in charge of the chicken coop. Export controls are a responsibility of the Ministry of Economics, which wants to encourage foreign trade. Not surprisingly, the trade control office suffers from understaffing and other problems the CIA reports.

The report glumly predicted that "it will be several years before West German enforcement is significantly improved in the area of illegal trade."

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**JACK ANDERSON**

## Germany Is West's Worst Security Risk

**O**f all our allies, West Germany is the worst security risk. The Federal Republic has become the greatest single source for sensitive Western technology that seeps to the Kremlin.

For years my sources have been telling me that no country "leaked" as much militarily useful technology to the Soviets as West Germany. I was skeptical. But a recent Central Intelligence Agency report to the National Security Council is powerfully persuasive.

The report, plus two related CIA reports, all classified "secret," have been obtained by my associates Dale Van Atta and Michael Binstein. Because of the potential embarrassment to U.S. allies, they have also been stamped "NoFORN," a classification meaning "No Foreign Dissemination."

But I think the American people are entitled to know what the West Germans are doing.

The key portion of the CIA summary report is titled, "Documented Unauthorized High-Technology Diversion to the USSR." Between 1966 and mid-1982, the CIA reports, it was able to identify 261 "probable instances" of high-tech diversion to the Soviets and 232 "possible instances." That was from all sources.

Out of the total 493 possible and probable high-tech leaks, West Germany accounted for 243, or nearly half. This was almost three times as many leaks as the next-highest contender, Japan, which was blamed for 85 during the same period.

"West Germany is the leading target of illegal technology-transfer activities," the CIA report states. "Illegal trade and Soviet bloc espionage

operations are the main mechanisms for the diversion of strategic technology from West Germany to the [Soviet] bloc."

The CIA suggests that the West German government has made a mistake by focusing all its investigative energy on espionage. The CIA reports indicate that the Soviets obtain the vast majority of militarily useful items from crooked businessmen who have little to do with Soviet-bloc spies.

"According to one recent CIA study," the agency summary reports, "only 28 of some 650 intelligence reports of probable or possible trade-based diversion of advanced technology to Eastern Europe or the Soviet Union over the past 15 years mentioned any intelligence involvement."

As for the No. 2 leaker, Japan, with its 85 documented diversions of high-tech secrets to the Soviet Union between 1966 and 1982, one of the CIA reports states bluntly that the Soviets "view Japan as an easy collection target."

The report details these items the Soviets have concentrated on getting from Japan: microelectronics, machine tools, computers, telecommunications, automation devices and specialty steel. The report adds that the technology that has been transferred (mostly of non-U.S. origin, if that's any consolation) has enhanced the Soviets' ground-based weapons and its solid-state circuitry for missiles and aircraft.

The roll call of countries that have supplied secrets to the Kremlin—except for Switzerland, the historically neutral country which places No. 3—is a roster of friends. In fourth place is our old ally, France, and in fifth place is Austria.

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**JACK ANDERSON and DALE VAN ATTA**

## CIA Suspected Illegal Sales to Soviets

**I**n a highly sensitive report seen by only a few U.S. leaders, the CIA three years ago identified five Japanese trading companies it suspected of engaging in illegal sales of Western high technology to the Soviet Union.

Among the five was C. Itoh & Co., the giant trading firm that helped arrange the illegal sale by Toshiba of sophisticated propeller-manufacturing machinery to Moscow. This enabled Soviet submarines to run more quietly and thus be more difficult to detect. If the CIA's 1984 warning had brought a crackdown on C. Itoh, the sale of some of the machinery might have been prevented.

The Central Intelligence Agency report was produced by the Technology Transfer Committee, a special CIA bureau created during the Reagan administration to monitor the legal and illegal flow of Western technology to the Soviet bloc. The report on Japan was one of a series focusing on various countries that sell to the Soviets. It is still classified "Secret/NoFORN," meaning "no foreign dissemination," even to U.S. allies.

We reviewed the secret report as part of a lengthy investigation in Tokyo and Washington by Dale Van Atta and our associate, Michael Binstein, that began in 1984.

"In practice, some Japanese trading companies will resort to illegal practices and some will not," the CIA report observed. It then went on to identify five Japanese companies, large and small, that the CIA had reason to believe were making at least questionable—if not outright illegal—sales of high technology to the Soviets.

In addition to C. Itoh, the firms named by the

CIA were Mitsubishi, Mitsui, Marubeni and Tairiku. These and other Japanese firms have used a variety of stratagems—including setting up subsidiaries in Singapore and Kuala Lumpur, Malaysia—to sell high-tech items to the Soviets, the report said.

The 1984 report provided a remarkably prescient description of the skulduggery unmasked three years later in the Toshiba scandal.

"Japanese firms often establish small, expendable dummy organizations to act as their intermediaries with Soviet and East European clients," the report said. "The dummy firm is expendable if the deal falls through for whatever reason. The Japanese parent is able to distance itself in a legal context from financial losses or possibly illegal activities of its surrogate."

This is similar to what Toshiba tried to do. But Congress didn't buy this, since Toshiba owned 51 percent of the subsidiary it tried to blame. Toshiba had to accept responsibility, and both its chairman and president resigned as a result.

A surprising aspect of the Toshiba scandal is that C. Itoh escaped with a slap on the wrist. The Japanese government banned C. Itoh from exporting machine tools to communist countries for—incredibly—three months.

Meanwhile, Japan plans to prosecute Toshiba, and the U.S. Congress has been drafting punitive measures against the company. The \$17 million transaction may cost American taxpayers billions of dollars as the Pentagon tries to overcome the Soviet advantage in evading U.S. undersea detection technology.

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JACK ANDERSON and DALE VAN ATTA

## U.S. Was Slow to Spot Japan-Soviet Deal

**T**he U.S. intelligence community took far too long to discover the illegal sale of submarine propeller-making machinery to the Soviets by C. Itoh and Toshiba—especially since major clues on such diversions from Japan were available as early as 1984.

We can say this with some authority because we were reporting that year on the Soviets' legal and illegal acquisition of high technology from Japan. Dale Van Atta flew to Tokyo to investigate, while our associate Michael Binstein developed Washington sources.

The result was columns in April and May 1984 that offered solid evidence that "the KGB has found Japan a rich source of high-technology products that can be turned to military advantage by the Kremlin."

We reported that the Central Intelligence Agency had uncovered "about three dozen documented cases of high-tech diversion by the Soviets through Japan since 1968." More than half of these, we noted, had been approved by the Japanese government, which "put short-term profits ahead of the West's long-term security needs."

Even if the CIA brass wasn't reading our columns, they might at least have paid some heed to a highly sensitive report completed in 1984 by their analysts. Still classified "secret," the report not only described the kind of tricks that C. Itoh and Toshiba later used to disguise their illegal sale, but actually identified C. Itoh as one of five Japanese companies to watch for illegal trade with the Soviets. The others were Mitsubishi, Mitsui, Marubeni and a small trading company, Tairiku.

"No two cases involving illegal shipments of

goods to proscribed destinations are ever the same," the secret report stated. But it cited as a "typical example" the following scenario:

"First the Soviets, through a foreign trade organization, would indicate to one of the 'friendly' Japanese companies that it is interested in obtaining a certain piece of . . . restricted technology. The friendly company . . . contacts a local wholesaler, who would place an order with a major trading firm to import the equipment that contains the restricted technology from the United States . . . The wholesaler arranges to resell the item to either the friendly company or to a 'cutout' firm."

"Ultimately, the friendly firm takes possession of the article and extracts the restricted portion of the equipment. The extracted portion is then installed inside a low-grade piece of machinery that is sent to an exporter for shipment to the Soviets."

"The exporter and wholesaler are often unwitting of the illegal nature of the transaction, and the cursory check by Japanese customs officials is not sufficient to determine the exact nature of the machinery's internal components."

In the C. Itoh/Toshiba case, this scenario was followed almost exactly. The Soviet foreign trade organization, Tekmashimport, contacted a "friendly" Japanese company, Wako Koeki, which then found a company that would supply the desired technology (in this case made in Japan). The company was Toshiba Machinery, a subsidiary of Toshiba Corp.

Toshiba Machinery then asked its regular export broker, C. Itoh, to be the "cutout" firm that actually handled the sale,

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